CHEMICAL

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Elusive Key

As short-term interest rates plumb ever-lower depths, the dollar flirts with postwar lows, and the likelihood of an additional fiscal assist is rendered evermore remote by an already yawning Federal budget deficit, the limits of government policy in jump-starting the economy are becoming all too apparent. But while Washington's policymakers may fret over what to do next, the fact is that until corporate America decides to turn on the employment spigot, the economy appears destined to remain in the slow lane, hamstrung by desultory consumer confidence, anemic income growth and sputtering spending gains.

Nor does there appear to be any quick fix to the idling jobs machine. Corporate America finds itself struggling to restore profitability and dig out from under an oppressive debt mountain by slashing costs, reining in borrowing and boosting the productivity of its existing workforce. In this environment, new hires take a back seat to balance sheet repair and, for the first time in recent memory, the speed of a recovery will be largely determined by the pace at which the private sector redresses its ills, rather than the rapidity with which the public sector shoves interest rates and the dollar lower or pushes spending levels higher.

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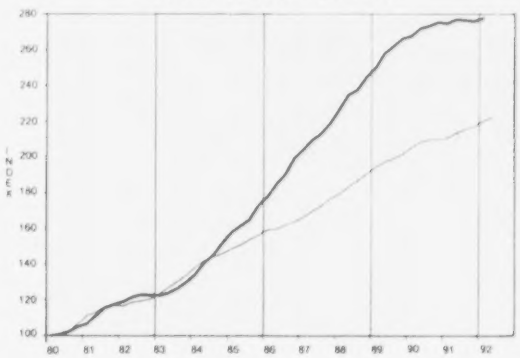
If the restoration of corporate financial health is the elusive key needed to unlock the door to faster employment growth—and almost anything would be an improvement especially when you consider that total payroll employment today stands just a shade higher than it did three years ago—the good news is that the healing process has commenced. The bad news is that the road ahead is a long one, dotted with potholes. For while the economy has been eking out modest gains for five straight quarters, the upturn in corporate profitability has not. In fact, before- and after-tax profits continued to skid almost nonstop throughout 1991, before finally rebounding in a meaningful way in the first quarter of this year.

Nonetheless, "meaningful" is in the eye of the beholder. While before- and after-tax earnings of nonfinancial corporate America posted broad-based, double-digit gains in the first quarter compared with quarter-earlier levels, they still stood only marginally above depressed first quarter 1991 levels—8½ percent in the case of before-tax profits and about six percent for after-tax earnings. Although these numbers may seem respectable, they are only a shadow of the profits advances typically experienced during the initial stages of past recoveries, when first-year earnings gains of 30 to 40 percent have been common. What is more, the profits share of gross domestic product still hovers near its recent nadir of 5.9 percent and has yet to reclaim the heights reached in the late 1980s.

NONFINANCIAL CORPORATE DEBT (THICK) VS. GDP (THIN)
(FIRST QUARTER 1980=100)



Sources: Federal Reserve Board, Commerce Department

Mountains and Valleys

One of the principal obstacles to corporate recovery is the hefty debt mountain acquired by business in the 1980s. Although it would be an exaggeration to attribute all of corporate America's ills to the debt splurge of the past decade, debt service continues to extract a punishing toll from corporate cash flow and spending capability, notwithstanding the three-year decline in short-term interest rates which has alleviated some of the stress. Fueled by a wave of mergers and leveraged buyouts, especially in the latter half of the 1980s, as well as an unprecedented boom in commercial real estate, nonfinancial corporate liabilities more than doubled between 1983 and 1989. And, with the growth of corporate debt running well ahead of the economy's growth, the ratio of corporate debt to GDP vaulted from 30 percent in 1980 to nearly 40 percent in 1989. Although the debt buildup has since ebbed, the legacy of past profligacy has left a firm imprint on business financial statements: 40 cents of every cash flow

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dollar is now devoted to debt service, leaving corporate treasurers scrambling to rebuild net worth (see chart).

The "hurry up" effort to dig out from under this debt load has been complicated by the valley into which the inflation rate has fallen. Underlying much of the logic behind the debt accumulation of recent years was an incorrect, if understandable, expectation that the inflation spiral was endless. If it was, even the most imprudent borrowers would at least have a fighting chance of servicing their debt obligations in a timely fashion—relying upon their ability to lift selling prices with little fear of losing customers and paying back loans with ever-cheaper dollars from an inflation-swollen cash flow. Retailers, airlines and builders all hopped aboard this bandwagon with unbridled zeal. However, with the rate of inflation sliced in half over the past 18 months alone, inflation is bailing out few borrowers and an outright consumer revolt against higher prices is throttling the ability of business to not only randomly lift prices, but even to pass along legitimate cost increases (Financial Digest—June 29, 1992).

Permanent Temporaries?

Faced with the challenges of coping with unanticipated price stability on the one hand and the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/92)	139,301	- 561	- 49,618
New York City (7/29/92)	25,621	- 910	- 6,211
Commercial Paper (7/29/92)	540,143	+ 765	- 987

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/92)	277,529	- 1,962	- 24,990
New York City (7/29/92)	48,236	+ 164	- 6,060

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/92)	985,424	- 4,928	- 34,646
New York City (7/29/92)	157,037	- 841	- 14,384

Financial Markets

	Friday 8/7/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.19%	- .04	- 2.26
180-Day Bills†	3.28	- .08	- 2.32
Longest Bills†	3.42	- .12	- 2.34
Recent Issues:			
4¼s 7/31/94	4.14	NA	
5⅛s 7/31/97	5.55	NA	
7½s 5/15/02	6.55	- .15	
8s 11/15/21	7.40	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (8/6/92)	6.06%	+ .17	- .88
Blue List Total ($ Million)	$1,374	+ $ 434	+ $394
30-Day Visible Supply ($ Million)	$3,295	- $2,597	- $651
Total	$4,669	- $2,163	- $257
Corporates:			
Moody's Aa Composite (8/6/92)	8.23%	–0–	- .84
30-Day Visible Supply ($ Million)	$ 840	- $ 760	- $640
Stocks:			
Dow-Jones Averages:			
Industrials	3,332.18	- 61.60	+335.98
Transportation	1,277.40	- 90.24	+ 13.72
Utilities	221.08	- 4.32	+ 17.90
65 Stocks	1,165.74	- 26.23	+ 96.63
N.Y.S.E. Composite Index	230.79	- 2.36	+ 18.62
N.Y.S.E. Avg. Daily Vol. for Week (000's)	184,280	- 16,634	+28,965

*34% Taxable equivalent 9.18%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/7/92	Week Ago
Overnight	3.63%	3.31%
1 month	3.44	3.38
3 month	3.44	3.44
6 month	3.56	3.63
1 year	3.81	3.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/7/92)	Currency Per U.S. $	Week Ago
Belgium	30.43	30.45
Canada	1.1908	1.1825
France	4.9924	4.9974
Germany	1.4774	1.4785
Italy	1176.93	1119.47
Japan	127.92	127.35
Mexico	3108.00	3115.51
Netherlands	1.6659	1.6675
South Korea	787.20	787.40
Switzerland	1.3280	1.3185
Taiwan	24.77	24.68
U.K.*	1.9160	1.9199

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (8/7/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.1%	-18.8%

need to repair badly worn balance sheets on the other, corporate America has responded with a relentless drive to cut costs and boost productivity. Since the most prominent non-fixed cost of most firms is their wage bill, the ax has come down hard on labor, with widespread layoffs occurring in numerous industries. Even in firms and industries relatively unscathed by the past recession, there is a decided reluctance to take on additional full-time workers. As a result, the existing workforce is being utilized more intensively, with the average workweek lengthening, overtime hours increasing and, where necessary, the use of temporary employees surging. Since January, in fact, one of every two workers added to nonfarm payrolls has been a temporary employee.

In light of the escalation of benefit costs, the widespread use of temporary workers may well be a hallmark of employment trends for years to come. This suggests that many of today's temporary hires may well become permanent "temps". But at some point, with the existing workforce trimmed to the quick and profitability on the mend, the hiring dearth will come to an end. Although one month hardly establishes a trend, trends do start somewhere and the 198,000-person increase in payroll employment last month is as good a starting place as any.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/5/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	283.598	+ 3.558	+26.453
Loans to Depository Inst.	.243	+ .006	- .960
Float	.567	+ .180	+ .340
Total Reserve Bank Credit	316.424	+ 4.603	+22.608
Treasury Deposits with Federal Reserve Banks	6.707	+ 1.145	+ .899
Currency in Circulation	314.806	+ 1.319	+21.440
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	291.040	+ 3.804	+47.293
	8/5/92		
Member Bank Reserves:			
Total Reserves Held	49.054	- .697	- 1.208
Excess (Deficiency)	1.074	+ .129	+ .204
Net Free Reserves	.834	+ .104	+ .668
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (7/27/92)	962.8	+ 7.7	+ 11.7
M2 (7/27/92)	3,454.7	- 1.6	+ 1.4
M3 (7/27/92)	4,154.6	- 2.6	- 0.2
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/7/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.15%	3.21%	3.33%
* Federal Agencies	3.25	3.33	3.46
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.02	4.17	4.47
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.35	3.45	3.70

‡ Finance Company Paper–Prime

5- 14 days	3.25%
15- 29 days	3.25
30- 59 days	3.28
60- 89 days	3.28
90-179 days	3.29
180-239 days	3.36
240-270 days	3.38

‡* Bankers' Acceptances

Sep.	3.24%
Oct.	3.24
Nov.	3.24
Dec.	3.26
Jan.	3.33
Feb.	3.33

‡ Industrial Paper–Prime

30- 89 days	3.35%
90-120 days	3.35

†Federal Funds Effective Rate 3.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92 n	$ 5.894	$ 5,840r	$ 5,658r
Gross Domestic Product (1987 Dollars)*	2nd Q'92 n	$ 4.890	$ 4,874r	$ 4,817r
Percent Change, Annual Rate	2nd Q'92 n	1.4	2.9r	1.7r
Change in Consumer Prices*	Jun '92	3.6%	1.2%	3.6%
Change in CHEM Cost of Living Index*	Jun '92	1.2%	1.2%	3.6%
Change in Producer Prices*	Jun '92	2.4%	4.8%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jul '92 n	117,772	117,574	116,729
Unemployment as % of Civilian Labor Force †	Jul '92 n	7.7%	7.8%	6.8%
Personal Income*	Jun '92 n	$ 5,024	$ 5,026r	$ 4,828r
Leading Indicators Composite Index (1967=100) †	Jun '92 n	149.6	149.9	143.9
Industrial Production Index (1977=100) †	Jun '92	108.2	108.6	107.3
Net Change in Consumer Installment Credit †	May '92	- $ 2.41	- $ 3.58	- $ 1.50
U.S. Merchandise Trade Balance †	May '92	- $ 7.38	- $ 7.06	- $ 4.79
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Jun '92	1.167	1,205	1,036
New Construction Expenditures*	Jun '92 n	$ 416.9	$ 423.4r	$ 398.2r
Total Business Inventories †	May '92	$ 829.1	$ 828.6	$ 824.2
Total Business Sales †	May '92	$ 546.0	$ 547.1	$ 535.4

*Seasonally adjusted annual rate. † Seasonally adjusted.

n-Newly reported figure

r-Revised. a-Anticipated.

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